
GOALS AND PRIORITIES

Priorities and the Budget Process

The priorities of San Diego as a region are numerous and the City of San Diego's responsibility is to address many of these priorities through services provided. The struggle to achieve these priorities is balanced with economic realities; there are not enough financial resources to provide for the needs of each concern. The process of determining which services to fund falls to the policy makers and the administrators of this City. This is one of the most important activities undertaken by governments.

A well prepared municipal budget must provide a plan for providing these services to the citizens. This is reflected by a budget document that presents the convergence of public policy, financial oversight and operational accountability. The budget should be more than a line item allocation; it should provide practical approaches to both short and long term priorities and be presented in an open and honest format. This section will provide an overview of how the priorities in the City interrelate and how the budget process relates to the decision process.

The development of the Fiscal Year 2005 Proposed Budget encompassed many aspects advocated by the National Advisory Council on State and Local Budgeting (NACSLB), an organization established with a mission to improve state and local government budgeting through identification and dissemination of good budget principles and practices. The NACSLB is composed of representatives from the eight original co-founding organizations as well as representatives from academic institutions, public employees' organizations, and the public finance industry. The budget practices identified by the NACSLB take into account, and respect, the differences in state and local laws, the impact of the political aspects of government, and the management needs of government.

Budgeting Framework

The fundamental principles of the NACSLB budgeting framework are:

1. Establish broad goals to guide government decision making
2. Develop approaches to achieve goals
3. Develop a budget consistent with approaches to achieve goals
4. Evaluate performance and make adjustments

The first principle provides the general direction for the City of San Diego and establishes the level and type of service that will be provided. This principle should include input from the policy makers as well as the stakeholders which is accomplished with City Council hearings throughout the year on City issues, feedback from Community Budget Forums and open discussion of budget issues in Budget hearings throughout May and June of each year. A separate aspect of this principle is an assessment of current and expected future conditions, and opportunities and challenges facing the community. This is where the economy, regulatory issues, population and environmental aspects are identified and analyzed. The assumptions of the economy and other factors are discussed in more detail in the Financial Summary section located further in this volume.

The second principle narrows down policies and programs necessary for the City to achieve the broad goals or priorities established in the first principle. In this respect, each decision that the policy makers agree to in cooperation with the stakeholders define how the broad priorities will be achieved. A major component of this principle is the adoption of financial policies. Over the last six years, the City has operated under eight Principles of Budgeting and Finance as endorsed by the City Council. These principles are considered when discussing strategies for implementing new policies and programs. In some cases it is not practical to adhere to the letter of the principle but use them in guiding clear

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understanding of the impact of a policy decision. The City's Principles of Budget and Finance are as follows:

1. Ongoing expenditures should be supported by ongoing revenues. Accordingly, onetime revenues should not be used for ongoing expenditure on a continuous basis.
2. The General Fund Reserve should be maintained at a minimum of three percent.
3. When capital projects are considered, all associated costs should be identified in order to properly assess future financial impacts.
4. Each enterprise fund should reflect the true cost of operation, including direct and indirect costs of services provided by the General Fund.
5. Activities that are supported by user fees should be fully cost recoverable.
6. Discretionary General Fund revenues should not be earmarked, thereby allowing maximum flexibility in funding decisions on an annual basis.
7. Budget development should be guided by a long term, or strategic budget plan proposed by the City Manager and adopted by the City Council.
8. Once adopted, annual budgets should be amended only when urgency requires, and then by identifying specific funding sources for these new priorities.

The third fundamental principle of the NACSLB budgeting framework is important in funding the broad priorities established in the first principle. This is accomplished by developing a financial plan, a capital plan and funding options. It is critical to approach this principle with a long-term approach although that is not always possible. An example is the devastating effect of the "Dot-com" collapse felt in the Northern California Bay area. Regardless of what long term finance strategy those municipalities adopted, no one could have predicted the impact to the economy of the collapse. The primary aspect is to be able to adjust to changing conditions by either reestablishing priorities or developing alternative strategies. Regardless of the change required, the principle here is to fund the current broad priorities which have been adopted by the policy makers.

The final principle is the assessment of the progress of meeting financial and programmatic priorities identified by the policy makers and the stakeholders. This will identify whether adjustments are required, either in funding levels or priority setting, and what is the time frame for accomplishing priorities. The City participates in this endeavor through the Performance Based Budgeting (PBB) practices. Refinement of this practice is on-going in order to tie budgetary decisions more closely with outcomes of performance measures. Still the PBB practice provides valuable costing and performance information for the majority of services provided by the City, and enhances the information provided for making budget and policy decisions.

Budget Priorities

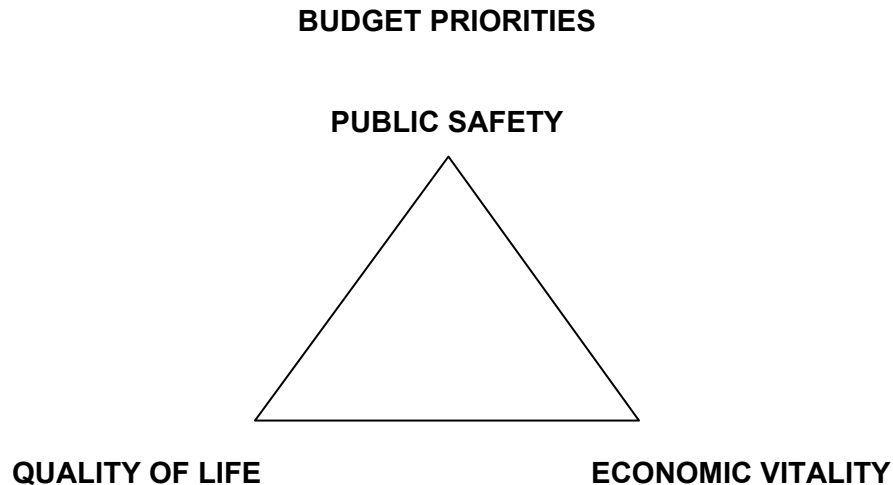
In Fiscal Year 2005, San Diego's economy appears to be improving, and continues to outperform both the State and national economies. However, because General Fund revenues are not growing at the same pace as ongoing expenditure requirements, corresponding reductions to City operations are required. This made the process of balancing the Fiscal Year 2005 Proposed Budget a difficult exercise. In an effort to come to terms with the continuing limited revenues, choices had to be made as to what are the City's highest priorities.

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Specific priorities that were the primary focus during the Fiscal Year 2005 Proposed Budget development include:

1. Enhanced Public Safety
2. Adequate Fiscal Reserves
3. Increased Pension System Funding
4. Reduced Deferred Maintenance
5. Improve Neighborhood Services (Parks/Libraries)

Over the years these priorities have remained constant although not necessarily articulated in the best manner so as to identify the impact of the decision making process. Specific priorities can be translated to three general budget priorities consistent with the principles endorsed by the National Advisory Council on State and Local Budgeting. For the City of San Diego, they are: Public Safety, Quality of Life, and Economic Vitality. Each of these priorities compliments each other and reflects equity when priorities are discussed. This is represented by reflecting them as components of an equal sided triangle.



Examples of City functions providing services to meet these priorities are reflected in the following table:

PUBLIC SAFETY	QUALITY OF LIFE	ECONOMIC VITALITY
Police Protection	Park and Recreation	Development Services
Fire Protection	Library	Water Department
City Attorney	Environmental Services	Fiscal Reserves
Risk Management	Deferred Maintenance	Community and Econ. Dev.
Transportation	Metropolitan Wastewater	Transportation

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The Budget Development Process

Although the broad priorities are treated as equal, unfortunately they do not share equal sources of funding. The priorities exist to articulate ideas of the policy makers and stakeholders but do not directly dictate the final decisions. If the priorities were not adjustable, there would be minimal involvement allowed by the policy makers or the stakeholders. Thus the Fiscal Year 2005 Proposed Budget represents a proposed plan for meeting these priorities and is open to adjustment by the policy makers and the stakeholders. This is the basis behind the budget development process.

Throughout Fiscal Year 2004, public safety was stressed as continuing to be the greatest priority for a variety of reasons however primarily due to the deadly October wildfires. Without new revenue sources and nominal increases to existing sources, monies had to be identified to fund public safety. Therefore, with the budget priorities used during the development of the Fiscal Year 2005 Proposed Budget, the emphasis to increase funding for public safety was analyzed carefully against the consequences to other departments or programs.

The approach of what was reduced and what was maintained was based on the determination of identifying “essential” services. Some stakeholders may debate that a favorite program should be funded while another group may argue for the elimination of the same program. As different approaches were discussed and reviewed, it should be noted that the majority of City departments have contributed to solving this fiscal challenge in some way. Reductions to expenditures were required of some departments while other departments have contributed by enhancing departmental or Citywide revenues.

Using the example of the priorities triangle, a commitment to public safety was the highest priority. However, because aspects of the Quality of Life are important as well, they could not be totally eliminated. Thus reductions to areas of Park and Recreation and Libraries are proposed, however there are still components of the respective departments left intact.

The only option that was not considered was the use of the General Fund Unappropriated Reserve. Many cities throughout the country have included reserves as a solution; however that does not represent the long term approach that this City plans to follow.